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Report Highlights:

The 2003/2004 coffee production in Honduras forecast at 2,800,000 60 KG bags, reflects the impact of the decline in world coffee prices in producer's ability to cover production costs, accumulation of a high level of debt and decrease in a primary source of foreign exchange. Exports during 2003/2004 are forecast to be 2,484,000 bags, depending upon harvest, prices, exporter purchases and financial incentives. As coffee, is, and will continue to be, an important source of jobs and revenues for 1.6 million people in Honduras, alternatives in specialty coffee, niche markets and diversification into non-traditional exports are much needed to generate income.

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Section I - Situation and Outlook

The 2003/2004 coffee production in Honduras is forecast at 2,800,000 60 KG bags. The coffee crisis has been a result of the steady decline in world coffee prices which are at their lowest level in 30 years. As reported by the Honduran Coffee Institute (IHCAFE) it has caused 80 percent of small farmers and 20 percent of the large and medium producers to accumulate a high level of debt. Many farmers are unable to cover production costs and are not expanding the area planted. The situation has severely affected about 20,000 small producers who have abandoned coffee production over the past couple years. Their farms are covered with weeds or have been repossessed by the banks. Many other coffee farmers in order to reduce expenses are forgoing the use of fertilizers, hiring fewer employees who are working shorter hours, picking less cherries and pruning trees to allow a better growth and have more commercial value in three years.

PS&D Explanations:

Bearing trees/area/production:

The PSD shows the 2001 estimate of bearing trees increased because the trees planted several years ago have matured and are now registered and picked. In addition, the PSD shows two cases with the effect of the bi-annual cycle of coffee, which in 2002 brought a high production, in 2003 will be low and in 2004 high. In the first case, the 2002 estimate for production is lower and the number of trees higher because the bi-annual cycle of coffee makes the 2002 harvest yields lower. In the second case, the revised production number for 2002 is higher than the previously estimated because of yield increases of the bi-annual harvest season. The increase in production was also due to a record year of sales registrations by producers who were motivated by the interest of exporters to buy their coffee. This increase took place, even though in December and January 2002 a cold front affected the country.

Domestic consumption:

Domestic consumption continues to be small relative to crop production and exports of Honduran coffee. For example, only about 10-12 percent of the harvest remains in the country. In 2001/2002 domestic consumption increased due that beans from the previous harvest were consumed until that year since purchases were done later. In addition, 2002 was the high season in the bi-annual coffee cycle and there was more beans. In 2003/2004 total domestic consumption of coffee is forecast at 301,000 bags. It should be noted that production for domestic consumption comes from three sources: 1) From the 8 percent of the total production from the 42 exporters, 2) From 70,000 producers, since they leave certain amount for their own consumption. 3) From 4,400 registered intermediaries, from whom 1,000 are the most active.

Exports:

Exports from Honduras during 2003/2004 are forecast to be 2,484,000 bags. This can change depending upon the size of the crop that is yet to bloom, prices and exporter purchases and financial incentives that the producer might receive to manage the farm and lower his production costs.

Coffee Production:

a. Coffee production in Honduras takes place: 61 percent in the mountains between 900-1200 meters, 23 percent in areas up to 1,600 meters and 16 percent in 500-900 meters all above sea level. Most of coffee producers prefer to sell the coffee without the pulp and with a 12% humidity after a drying process. However, due to conditions where the coffee is grown producers have to sell the coffee in cherry, without added value, even though if they sell it dry they could earn more. This is due to the need to earn some immediate cash, rather than delay payment until after drying the bean. Intermediaries help in the commercialization to take harvest out to the road. Some intermediaries live in the same area of production and provide funds to the producers for personal expenses or food needs. Most of the producers do not have access to credit in Banks, so the intermediaries provide cash in various part of the country.

Trade:

a. The flow of unregistered coffee going to neighboring countries, decreased in 2002 and we estimate that only 50,000 bags went to Guatemala and 25,000 to El Salvador. Other years the unregistered coffee exports have been 500,000 bags. This reduction was mainly due that Guatemalan exporters did not need to fulfill commitments for sales by buying Honduran coffee and the coffee was always exported by the Honduran companies.

b. Some of the reasons for the illegal trade is the captive market that the exporters have, since according to law they are the only ones that can export. Another aspect is that in Guatemala there is a higher capacity to negotiate future markets. In Honduras, neither the producer or the exporter has developed the means for such capacity. Subsequently, the only way to expedite a sale are through intermediaries, who frequently smuggle it to Guatemala. Also, Guatemala buyers can afford to pay higher prices for lower quality Honduran coffee and then mix it with Guatemalan beans since Guatemalan coffee is often sold at a premium in the international market. Meanwhile, Honduran coffee receives a price discount in the international market.

c. Export prices in 2002/2003 increased by \$8.00/46 KG bag (from \$51 to \$59). In 2002, the major importers of Honduras coffee were Germany, U.S.A., Belgium, Holland, Italy, Japan, France, South Korea and Spain.

Effect of Low Coffee Prices on Honduras' Economy:

a. At the local level, the coffee crisis creates unemployment and lower cash wages. This impacts the formal economy.

b. At national level, even though coffee prices are low, the sector provides employment to 25 percent of the population and generates much needed foreign exchange. 1.6 million people directly participate in the coffee harvest. They are paid \$71 million distributed nationwide in four months. Besides picking the beans, there are other activities such as: fertilizer application, shadow control, cleaning, dry, commercialization and transport which provide other employment.

- c. At the macroeconomic level, low prices affect the GDP and BOP. Foreign exchange received from coffee exports has been the primary contributor during: 1994 (\$200.1), 1995 (\$349.3), 1997 (\$326.3), 1998 (\$429.8), 1999 (\$256.1) and 2000 (\$339.4).
- d. The Government of Honduras, realizing there are 100,000 coffee producers, the importance of a vital coffee sector and the high level of indebtedness, has provided coffee producers loans which amount to \$75 million. According to IHCAFE if production is allowed to decrease unemployment will increase.
- e. According to IHCAFE what is needed is to introduce new ways to diversify and provide a nutritional complement to coffee producers since they are going to continue with the same levels and a steady coffee production. Thus, IHCAFE is providing assistance for growing fish, poultry, bees or fruit trees as an artesanal production. Besides adding nutritional value, this diversification activities will mean that producers do not need to buy those products and could generate some other income.

According to data from the Honduran Central Bank, imports of roasted and soluble coffee for domestic consumption come mainly from the United States. During 2001, imports totaled 194 metric tons valued at \$123,300. Other coffee exporters to Honduras are El Salvador and Guatemala to a lesser degree. We expect that competition to US supplied coffee will be greater as Central American companies are selling their soluble coffee in machines located at commercial centers and office buildings.

As the coffee crisis continues in Central America, the IDB, World Bank and the United States Government through USDA and USAID are providing assistance to develop specialty coffee, niche markets and diversify into non-traditional exports to promote a wider range of income generation. Nevertheless, coffee is, and will continue to be, an important source of jobs and revenues in Central America. However, times have changed and farmers need to diversify into other endeavors, in either agriculture, small commercial businesses or manufacturing.

Section II - Statistical Tables

PSD Table						
Country	Honduras					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		10/2001		10/2002		10/2003
Area Planted	284	248	284	248	0	248
Area Harvested	215	214	205	184	0	208
Bearing Trees	705	836	675	747	0	761
Non-Bearing Trees	130	133	125	125	0	128
TOTAL Tree Population	835	969	800	872	0	889
Beginning Stocks	167	167	262	262	341	184
Arabica Production	2990	3098	3065	2600	0	2800
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	2990	3098	3065	2600	0	2800
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	3157	3265	3327	2862	341	2984
Bean Exports	2617	2617	2700	2392	0	2484
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	2617	2617	2700	2392	0	2484
Rst,Ground Dom. Consum	278	386	286	286	0	301
Soluble Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	278	386	286	286	0	301
Ending Stocks	262	262	341	184	0	199
TOTAL DISTRIBUTION	3157	3265	3327	2862	0	2984

Export Trade Matrix			
Country	Honduras		
Commodity	Coffee, Green		
Time period	MY	Units:	60 Kg Bags
Exports for:	2002		2003
U.S.	344,924	U.S.	300,000
Others		Others	
Europe	1,900,522		1,800,000
Japan	176,807		170,000
South Korea	113,827		100,000
Guatemala	50,000		50,000
El Salvador	25,000		25,000
Total for Others	2,266,156		2,145,000
Others not Listed	350,865		355,000
Grand Total	2,617,021		2,500,000